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SUBJECT: JAPANESE MORNING PRESS HIGHLIGHTS 10/01/08

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1) TOP HEADLINES

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Collapse of financial system (Part 1): "Bad dream" with rejection by U.S. House of bailout bill spreading across world

Yomiuri:

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Bush calls for early passage of rescue bill for financial system

Nikkei:

Financial crises wipes out 2,000 trillion yen in global market capitalization over past year

Sankei:

Rejection of bailout legislation pushing down global stock prices

Tokyo Shimbun:

TSE loses 100 trillion yen in market capitalization since early this year

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2) EDITORIALS

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(2) Bring city youngsters into agricultural sector

Mainichi:

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(1) U.S. must quickly move to cure global financial woes

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(1) U.S. must take responsible action to avert global depression

Sankei:

(1) U.S., as center of financial meltdown, should be responsible for stabilizing global financial systems
(2) Return of Chinese manned space vehicle to earth: International cooperation also needed in space

Tokyo Shimbun:

(1) U.S. must realize its responsibility for global economies
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Akahata:

(1) Abolish fundamentally improper elderly health plan

3) Prime Minister's Official Residence (Kantei)

Prime Minister's schedule, September 30

NIKKEI (Page 2) (Full)
October 1, 2008

07:30

Took a walk around his private residence.

10:01

Cabinet meeting at the Kantei. METI Minister Nikai remained. The issues a letter of appointment to Special Advisor to the Prime Minister Yamaguchi. Chief Cabinet Secretary Kawamura was present. A photo session followed.

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10:48

Entered his name in the register book at the residence of Prince Katsura at Sanban-cho.

14:02

Met with Nippon Keidanren Chairman Mitarai at the Kantei. Then met with Takada, chief of the secretariat of the Cabinet Office International Peace Cooperation Headquarters, followed by Deputy Chief Cabinet Secretary Uruma.

15:04

Met with Ambassador to Italy Ando, followed by Party Administrative Reform Promotion Headquarters chief Chuma.

16:22

Met with Chairman Niwa of the Decentralization Reform Promotion Committee. Then met with Assistant Deputy Chief Cabinet Secretary Saka.

16:56

Met with Upper House member Otsuji.

17:43

Met with Party Constitution Council Chairman Nakayama and Deputy Chairman Yasuoka and Chief of Secretariat Nakatani.

18:41

Dined with Deputy Chief Cabinet Secretaries Matsumoto and Konoike at Unkai, a Japanese restaurant at ANA Intercontinental Hotel Tokyo. Then goes to Manhattan Lounge with the two.

22:42

Arrived at the private residence.

4) US financial crisis working as downward pressure on Japanese economy

NIKKEI (Page 5) (Full)
October 1, 2008

The deepening financial crisis that started in the U.S. is increasingly applying downward pressure on the Japanese economy. There are no signs of improvement in corporate activities, which have become stagnant due to a slow down in exports. There is a strong likelihood that mining and manufacturing production in the July-September quarter will remain in negative territory for the third consecutive quarter. The environment for individual consumption is increasingly becoming harsh due to high prices and employment instability. There is fear that the sluggish U.S. economy will aggravate the sense that the global economy is slowing down, making it difficult to envision a scenario for buoying up the economy.

Stagnant production, shrinking consumption

The mining and manufacturing production index (preliminary figure; 100 in 2005) for August, released by the Ministry of Economy, Trade and Industry (METI), stood at 104.5, down 3.5 PERCENT from the previous month. In the manufacturing industry production projection survey, which shows an outlook for production by leading manufacturers, such an index for September is expected to rise 1.6

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PERCENT and drop in October by 0.1 PERCENT . Given these projections, such an index for the July-September quarter will likely drop 1.1 PERCENT , indicating a strong possibility of the index marking negative growth for three quarters in a row.

The major cause of the slow down in production is a slump in exports. In particular, drops in U.S.- and Europe-bound exports of automobiles and Asia-bound electronic parts exports are noticeable. If exports show negative growth for four consecutive quarters, it would be the first since 2001, when the IT bubble collapsed in the U.S. If the U.S. economic slump becomes drawn out due to the financial crisis, the economies of emerging countries, such as China, are bound to suffer a blow. A growing view is that the production environment would remain bad for the next six months or so, as Daiwa Research Institute projected.

Now that corporate activities are bound to become stagnant, the consequent constraining of employment and wages will likely affect personal consumption. The total unemployment rate for August stood at 4.2 PERCENT , up 0.2 points from the preceding month. The job-offers-to-seekers rate fell below 1.00 for nine consecutive months. A rise in the prices of daily necessities and employment instability are beginning to apply pressure on household budgets.

A loss of consumer confidence is also visible. According to a survey released on the 30th by the Nippon Research Institute (NRI), an external body of the Cabinet Office, a livelihood anxiety index showing projection for circumstances for the next one year logged 163 in August, topping 159 marked in April 2004. This is the worst level since the survey started in April 1977. The NRI has analyzed the outcome of the survey that concern about a rise in prices and a decline in business confidence is mounting.

Falling stock prices as a result of the financial crisis is also working as a negative factor for consumption. An increasing number of medium- and small-businesses are collapsing. Kyohei Morita at Barclays Capital Securities said, "Since it is difficult for medium- and small businesses to offer jobs, chances are high that consumption will become sluggish."

5) Real growth rate for fiscal 2008 down by 0.1-0.2 points due to plunging stock prices, strong yen trend, according to NEEDS estimate

NIKKEI (Page 5) (Full)
October 1, 2008

According to a forecast by Nihon Keizai Shimbun Digital Media, based on NEEDS, a comprehensive economic data bank, real growth in the economy in fiscal 2008 will fall 0.1-0.2 points, if stock prices continue to fall and the trend of yen appreciation continues into the second half of fiscal 2008 (October-March, 2009). The strong yen will put a dent in exports and corporate earnings, stagnating economic activities.

The estimate was made, based on the comparison with a case of the Nikkei Stock Average (approximately 12,800yen) and the yen exchange rate (about 107.6 yen against the dollar) hovering on the level marked in the July-September quarter in 2008.

Provided that stock prices hover at around 11,000 yen and yen quotation at 100 against the dollar, the growth rate would drop 0.1

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point. As a result, a decline in exports will apply downward pressure on corporate earnings, holding down capital investment,

albeit slightly.

If stock prices go down to 10,000 yen and the yen exchange rate to 95 against the dollar, the economic growth rate would fall 0.2 point. The main reasons for this would be a slow down in exports and stagnant capital investment. According to the estimate, however, those factors would not have a major impact on personal consumption, which commands more than 50 PERCENT of GDP.

6) Ruling coalition eyes additional economic measures worth 10 trillion yen, focusing on tax incentives

TOKYO SHIMBUN (Page 1) (Full)
October 1, 2008

The Liberal Democratic Party (LDP) and the New Komeito started yesterday mapping out additional economic measures to ease growing concerns about a recession in Japan due to the global financial crisis triggered by the U.S. Some members are calling for a package worth 10 trillion yen, focusing on tax incentives. The coalition hopes to present such extra measures after the fiscal 2008 supplementary budget bill clears the Diet and before the next House of Representatives election.

The ruling coalition agreed in a meeting of their secretaries general and Diet Affairs Committee chairmen yesterday to set up a project team tasked with hammering out measures to counteract global stock plunges following the rejection by the U.S. House of Representatives of a rescue bill for the U.S. financial system. A decision was also made to swiftly map out additional economic measures and propose them to the government.

In addition to tax incentives, the package is expected to include measures to reduce corporate tax rates and to expand the coverage of credit guarantees for small businesses.

The coalition intends to incorporate these extra measures, together with the income tax reduction scheme to be implemented in fiscal 2008, in a second supplementary budget bill that the ruling parties intend to submit to the ordinary Diet session early next year.

But the ruling parties have yet to determine where the fiscal resources for extra economic measures should come from, so coordination may not go smoothly in the government and the ruling camp.

7) Yen-loan sections of JICA, JBIC to be integrated

MAINICHI (Page 5) (Full)
October 1, 2008

The Japan International Cooperation Agency (JICA) and the Japan Bank for International Cooperation (JBIC) have decided to integrate their yen-loan sections engaged in aid to developing countries today. When official development assistance (ODA) disbursements have been reduced every year, they aim to strengthen collaboration with the private-sector and nongovernmental organizations (NGO).

Through the integration, JICA will be tasked with such new services as yen loans and part of grant aid of which the Foreign Ministry is

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now in charge, in addition to its current duty of technological cooperation (personnel dispatch). JICA and JBIC are willing to integrate aid administrative functions now split among various organizations. They have also decided to set up a liaison center with the private sector to learn know-how from NGOs on aid activities with meager funds, aiming to offer aid that combines personnel contributions with financial aid.

8) Ruling bloc leaning toward enacting supplementary budget

NIKKEI (Page 2) (Abridged slightly)
October 1, 2008

In the wake of the U.S.-originated global stock plunge, the ruling

camp will make utmost efforts for the enactment next week of a fiscal 2008 supplementary budget bill, including a comprehensive economic stimulus package. The ruling bloc still clings to its basic plan to dissolve the Lower House in October for a snap general election in early November, but cautious views about an early dissolution have emerged in the Liberal Democratic Party. Prime Minister Taro Aso plans to make a final decision after closely monitoring the economic situation and the opposition bloc's moves.

Speaking to a group of reporters last evening, the prime minister played up his eagerness for an early enactment of the supplementary budget, saying: "We must get the extra budget approved by the Diet as an emergency means to prop up the economy at all costs. I think the New Komeito understands that, as well."

Chief Cabinet Secretary Takeo Kawamura, too, called for the cooperation of the opposition bloc in a press conference, saying: "It is Japan's responsibility to the world to act properly. It is important to build a consensus from such a viewpoint."

In a meeting yesterday of the secretaries general and others of the LDP and New Komeito, the two parties confirmed they would aim at the swift enactment of the extra budget in line with the prime minister's wishes. They are planning for the budget's enactment on Oct. 9 after two days of budget deliberations in each chamber starting on Oct. 6 following the Oct. 1-3 representative interpellations in the two houses.

Many in the leaderships of the two chambers who have been calling for Lower House dissolution ahead of budget deliberations also voiced in their meeting the need to speedily pass the extra budget. A prime ministerial aide noted: "The prime minister is firmly determined to get the budget approved by the Diet. Still, the timetable for Lower House dissolution and a general election would not be delayed significantly. There is no doubt that the election will take place. The day to dissolve the lower chamber is near at hand." Deputy Chief Cabinet Secretary Yoshitada Konoike, who is close to the prime minister, indicated at a fund-raising party held by an LDP lawmaker in Tokyo last night that the prime minister would dissolve the Lower House before long.

If the chamber is dissolved immediately after the extra budget clears the Diet on Oct. 9, chances are that the official campaign will kick off on Oct. 21 and the voting will take place on Nov. 2. If budget deliberations continue until mid-October, the option of going to the polls on Nov. 9 would emerge. In the event the opposition bloc tries to protract the deliberations further, the ruling camp's strategy is to dissolve the chamber at that point.

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Prospective candidates across Japan are also in favor of an early dissolution for financial reasons. A New Komeito executive commented: "We want to enact the supplementary budget, but at the same time, we must run the Diet so as not to destroy the scenario up to the election on Nov. 9."

Meanwhile, in an LDP General Council meeting yesterday, one said: "The country needs to cooperate with U.S. measures; this is no time to discuss dissolving the Diet."

The prime minister told LDP Upper House Caucus Chairman Hidehisa Otsuji at the Prime Minister's Office last night that giving up an early dissolution is one option depending on how the economy turns out. Given the murky economic and financial situations, there is a view that the timing for dissolving the Diet is becoming fluid.

9) DPJ willing to endorse supplementary budget based on Lower House dissolution; Related bills to move into focus

NIKKEI (Page 2) (Abridged slightly)
October 1, 2008

If the ruling bloc promises an early Lower House dissolution, the main opposition Democratic Party of Japan intends to agree to adopt a supplementary budget bill after two days of deliberations in each

chamber. Even if the Upper House rejects the budget bill, it will clear the Diet, given the Lower House's ascendancy over the upper chamber under the Constitution. In future negotiations between the ruling and opposition blocs, a bill to make up for regional revenue shortfalls resulting from the loss in April of the provisional tax rates on road-related revenues is expected to become a bone of contention.

The DPJ is scheduled to discuss the handling of the supplementary budget and related bills at its budget research committee meeting and its shadow cabinet meeting today. Objections are deeply rooted in the party leadership, with one saying: "It is not effective to take half-baked economic countermeasures." Some are in favor of approving the bills, reasoning that it is not good to generate an impression before the next Lower House election that the party is trying to block the government's effort to invigorate the economy.

The DPJ, joined by the Social Democratic Party and the People's New Party, has called on the ruling camp to dissolve the Lower House through talks. The main opposition party plans to continue pressing the ruling coalition for assurance for an early dissolution with an eye on holding the election by Nov. 9.

At the same time, some DPJ members are highly alarmed at pushing ahead with deliberations alone, while leaving the dissolution timetable ambiguous. Upper House DPJ Caucus Chairman Kenji Hirata warned: "Nobody knows how many days the deliberations will take before the bill is adopted."

The Upper House might shelve discussions on the regional compensatory bill that came from the Lower House. In such a case, it takes 60 days for the legislation to clear the Diet with the ruling bloc's overriding vote in the Lower House. Many DPJ lawmakers are supportive of the bill so as not cause a hole in local fiscal resources. Some think a decision must be made by linking the matter to the party's dissolution strategy.

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10) DPJ's Hatoyama eager to clash in Diet with Prime Minister Aso

ASAHI (Page 4) (Full)
October 1, 2008

Yukio Hatoyama, secretary general of the main opposition Democratic Party of Japan (DPJ), is enthusiastic about locking horns with Prime Minister Taro Aso in representative interpellations today in the plenary session of the House of Representatives. It is because their grandfathers were prime ministers who were rivals also engaged a power struggle. Hatoyama intends to argue against Aso's unusual "questions" posed to the DPJ in his policy speech delivered on Sept. 29.

In 1946, Hatoyama's grandfather Ichiro Hatoyama was banned from holding public office immediately before assuming the prime minister's post, leaving the reins of government with Shigeru Yoshida, Aso's grandfather. Ichiro Hatoyama, however, became prime minister in 1954, after devoting himself intensely to toppling the "one-man" force, Prime Minister Yoshida, from power. Ichiro made efforts to normalize diplomatic ties with the Soviet Union.

Yukio Hatoyama stressed that Shigeru Yoshida was a bureaucrat-turned politician but Ichiro Hatoyama was a party politician. He has always superimposed his political stance of toppling bureaucracy-led politics on his grandfather. He expressed his rivalry against Aso in August when Aso became secretary general of the ruling Liberal Democratic Party (LDP), but his desire ended in failure because Prime Minister Yasuo Fukuda suddenly abandoned his administration.

Hatoyama has now finally got a chance to lock horns with Aso. He is bent on clashing with Aso, saying: "I can't put up with such rude questions."

11) Diet dissolution to be put off until after Oct. 3 as deliberations begin tomorrow on supplementary budget bill

SANKEI (Page 1) (Excerpts)
October 1, 2008

The government and ruling parties yesterday decided to start deliberations Oct. 2 on the supplementary budget bill for fiscal 2008 that includes an emergency economic stimulus package. There are many voices in the Liberal Democratic Party (LDP) and New Komeito calling for Diet dissolution on Oct. 3, but Prime Minister Taro, who is giving priority to the economic package in the face of the financial crisis started in the U.S., made his own decision. With that, it is certain now that dissolution will be put off until after Oct. 6 next week.

On the other hand, the Prime Minister also has shown a strong intention to pass the anti-terrorist special measures bill that would extend by a year the Maritime Self-Defense Force's refueling mission in the Indian Ocean. There is thus a possibility of Lower House deliberating that bill as well as the supplementary budget at the same time. The Prime Minister also has shown interest in having the three bills establishing a consumer affairs agency passed. The outlook after next week is for fierce horse trading to occur between the ruling and opposition camps over the schedule of deliberations on these pieces of legislation and the timing of the dissolution.

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12) Prime Minister Aso plans to move into official residence after Lower House election

ASAHI (Page 4) (Full)
October 1, 2008

Asked by reporters when he would move into his official residence adjacent to the Prime Minister's Official Residence (Kantei), Prime Minister Taro Aso said yesterday: "After the election." He indicated that he would come to the Kantei from his private residence in Shibuya Ward. He appears to be thinking that he will move into his official residence after his party wins the House of Representatives election.

Nine prime ministers -- from Kiichi Miyazawa to Yasuo Fukuda -- lived in the prime minister's official residence. Of the nine, six prime ministers moved into there within two weeks after taking office.

Aso's residence is a magnificent Western-style house in which former Prime Minister Shigeru Yoshida once lived. A source familiar with Aso said: "It would be uncomfortable for him to live in the official residence. He can get rid of his boredom by living in his private residence." Shinzo Abe and Fukuda, who inherited their fathers' private residences, moved in the official residence 62nd day and 111th day respectively from the day they assumed office.

13) SDP protests Sasagawa's remark

ASAHI (Page 4) (Full)
October 1, 2008

Following the rejection of a financial industry bailout by the U.S. House, Liberal Democratic Party (LDP) General Council Chairman Takashi Sasagawa said: "The speaker of the House is a woman. That's why (the bailout plan) burst." In regard to Sasagawa's remark, Social Democratic Party Chairperson Mizuho Fukushima yesterday released a statement calling on Sasagawa to withdraw his remark. The statement went: "It had nothing to do with the fact that the House speaker is a woman. He discriminates against women and his remark is anachronistic."

Sasagawa, meanwhile, told reporters in Maebashi City: "I didn't say that the bailout was rejected because the House speaker is a woman."

14) Aso uses expression "Greater East Asia War," raising questions about his historical view

ASAHI (Page 4) (Full)

October 1, 2008

Prime Minister Aso told reporters yesterday at his office when asked for his view of wars in the past, "I think the Sino-Japanese War (of 1894-95) and the Russo-Japanese War (of 1904-05) were a little bit different from the so-called Greater East Asia War or the Second World War." He added: "It's been about 120 years since the Meiji Constitution was promulgated. Regarding Japan's history, there is history that Japan can boast of, and there is also history Japan cannot boast of."

The "Greater East Asia War" (Daitoa Senso) is the official name

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adopted by the government in wartime. After the war, however, GHQ, or the General Headquarters of the Allied Powers, prohibited the government from using it in its official documents. School textbooks generally refer to it as the "Pacific War" (Taiheiyo Senso) or the "2nd World War" (Dainiji Sekaitaisen).

Chief Cabinet Secretary Kawamura, meeting the press yesterday, stated: "The prime minister was under former Prime Minister Shigeru Yoshida's tutelage from his childhood, and the prime minister, among our generation, is the only lawmaker who can recite the Imperial rescript on education. People in those days didn't say the 'Second World War' but said the 'Greater East Asia War.' I thought this might be what he meant."

15) Aso urges Diet to debate collective self-defense

MAINICHI (Page 5) (Full)
October 1, 2008

Prime Minister Taro Aso yesterday met at his office with three leaders from the ruling Liberal Democratic Party, including LDP Constitution Council Chairman Taro Nakayama. Aso has recently alluded to the necessity of changing the government's conventional way of reading and interpreting the Constitution over the right to collective self-defense. In this connection, Nakayama said the Diet should reinterpret the right to collective self-defense. According to Nakayama, Aso said he wanted the Diet to discuss the matter. The government, based on its constitutional interpretation, has taken the position that Japan is not allowed to participate in collective self-defense. Nakayama reported on the past circumstances of this government interpretation. Meanwhile, the Diet has set up a panel on the Constitution in both houses. However, the panels have yet to meet so far. Touching on this fact, Aso told Nakayama that the panels should start discussions early.

16) Foreign, defense chiefs say gov't view on collective self-defense remains same as ever

ASAHI (Page 4) Full)
October 1, 2008

Foreign Minister Nakasone and Defense Minister Hamada, respectively meeting the press yesterday, indicated that they would take over the government's conventional view that Japan is constitutionally not allowed to use the right to collective self-defense. Meanwhile, Nakasone and Hamada, given changes in the security environment of Japan, pointed to the necessity of discussions for Japan's possible participation in collective self-defense.

Concerning the right to collective self-defense, Prime Minister Aso stated right after coming into office that the government's constitutional interpretation should be changed and Japan should be allowed to exercise the right to collective self-defense.

Nakasone said the government's view remains the same as ever. Based on this standpoint, he remarked: "The security environment has been changing. We should discuss well about whether the current interpretation is all right." Hamada indicated that he would have to follow the government's current policy. He added: "When thinking as a politician, I wish we could do so. However, I think it's extremely delicate as to whether it will become an issue (in campaigning for a general election)."

17) Joint drill with Russian navy set for Oct. 3

ASAHI (Page 4) (Full)
October 1, 2008

The Maritime Self-Defense Force will conduct an annual bilateral joint search and rescue drill with the Russian navy on Oct. 3, MADF Chief of Staff Keiji Akahoshi said in a press conference yesterday. Russia has been at odds with the United States and Europe over the Georgia issue, so there were cautious arguments from within the government. "Since this summer, we've coordinated with our Russian counterpart while in consideration of the international situation, and we decided to carry it out at this time," Akahoshi explained.

18) LDP OKs SDF dispatch

ASAHI (Page 4) (Full)
October 1, 2008

The Liberal Democratic Party's General Council met yesterday and approved a government plan to send officers from the Self-Defense Forces for United Nations peacekeeping operations in the southern part of Sudan. The government will make a cabinet decision on Oct. 3 to adopt the plan and will send two SDF officers to the headquarters there in mid-October and late that month. They will be posted there until the end of June next year.

SCHIEFFER